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# **Continuities in the use of the intellectual capital statement approach: elements of an institutional theory analysis**

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## ABSTRACT

The Danish Guideline Project and its principal output, the intellectual capital statement, have attracted only a very limited extent of empirical attention since the conclusion of the initiative in December 2002. The paper reports the findings of a series of semi-structured interviews with individuals employed in the small subset of companies that were found to have persevered with intellectual capital reporting during most of the following decade. Interviews explored three themes: motivations for initiating intellectual capital reporting; reasons for continuing to do so; and details of the implementation and evolution of these practices. The paper utilises a number of elements of institutional theory to organise the findings and to discuss the continuities in intellectual capital reporting practice documented therein.

**Keywords** - Danish Guideline Project; Institutional Theory; intellectual capital; intellectual capital statements; isomorphism



## 1. INTRODUCTION

Throughout the 1990s, the growing importance of intangible assets and intellectual capital (IC) for successful value creation, combined with the inherently risky nature of such assets (Lev, 2001), resulted in a range of unilateral developments on the part of organisations designed to take them into account and create meaningful reporting around them. Initially the most widely recognised development was probably Skandia's IC reporting framework, the Navigator, pioneered at its AFS division by Edvinsson and his colleagues (Edvinsson, 1997; Mouritsen *et al.*, 2001a). In response to the emergence of these early IC accounting and reporting practices, the financial markets, academics, regulators and government bodies began to express concerns about the validity, reliability and comparability of the information derived for and presented in such statements and reports. Addressing these concerns quickly resulted in the initiation of projects designed to establish frameworks and guidelines for disclosing information on IC that reflected the quality and credibility of the information normally found in the financial statements produced by the accountancy profession.

One of the most influential projects to date in creating models and structures that could support organisations in their work of measuring, managing and communicating the role IC and knowledge resources in the value creation process was the Danish Guideline Project for Intellectual Capital Reporting. This project ran in two phases during the period 1997 to 2002. The initial, modest phase resulted in the publication of *Developing Intellectual Capital Accounts: Experiences from 19 Companies* (DATI 1999) and *A Guideline for Intellectual Capital Statements - A Key to Knowledge Management* (DATI 2000). The second, more extensive exercise culminated in the publication of a further pair of outputs: *Intellectual Capital Statements – The New Guideline* (Mouritsen *et al.*, 2003a) and *Analysing Intellectual Capital Statements* (Mouritsen *et al.*, 2003b). During the course of the project, 100 companies were involved in creating and disclosing information on their stocks of IC utilising the principal output of the project, the Intellectual Capital Statement (ICS). To date, and despite continued reference in the literature to the considerable merits of the ICS approach, the outcome of the Danish initiative has attracted very little empirical interest.

In the autumn of 2012, and in recognition of the tenth anniversary of the publication of the new guideline on 2 December 2002, a research project designed to address the latter absence in the literature was initiated<sup>1</sup>. The study sought to document the continuing use of the ICS approach and any developments introduced among the guideline project's population during the intervening years (Nielsen *et al.*, 2015). Elsewhere, Schaper (2015) explores the underlying reasons that motivated the greater part of companies once involved in the guideline project to subsequently abandon the ICS approach. The present paper discusses the motivations of a small number of companies for initiating IC reporting; the reasons for continuing with these practices over time; and how companies had implemented and developed their specific disclosure practices. The empirical content is provided by eight in-depth semi-structured interviews carried out with respondents from these companies and extends the findings of the broader study reported in Nielsen *et al.* (2015) and Schaper (2015).

The paper is organised as follows. A brief overview of the Danish Guideline Project, and its principal output, the ICS approach, is provided in the following section. In section three the institutional

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<sup>1</sup> The study was initiated on equal terms by the authors and as a collaboration between the "G. d'Annunzio" University of Chieti-Pescara in Italy, Aalborg University, Denmark and the University of Dundee, UK.

theory (IT) framework, the broad theoretical perspective identified as being appropriate to underpin this paper, is also reviewed, albeit in brief, with attention being drawn to a number of potentially insightful aspects that are particularly applicable here. The research design of the broader study is outlined in section four while the fifth section reports the findings of the interviews carried with respondents from the seven companies that evidenced an extended commitment to working with the ICS approach. These findings are discussed in the concluding section.

## 2. THE DANISH GUIDELINE PROJECT

The Danish Guideline Project was initiated and funded by the Danish Government in 1997, terminating in December 2002. Project members were recruited from private and public sector organisations, the civil service and the auditing profession, with academic leadership provided by Mouritsen and Bukh. The motivation for the initiative was the recognition that in order to maximise Denmark's success as a twenty-first century knowledge society, it was necessary to effectively manage, measure and report the utilisation of stocks of IC resources that increasingly provided the key to sustained value creation and delivery. The first phase of the project was pursued under the auspices of the Danish Agency for Trade and Industry (DATI), and entailed working with nineteen "companies" (as they were referred to in the project, reducing to seventeen) to construct the first ICS as identified in *A Guideline for Intellectual Capital Statements - A Key to Knowledge Management* (DATI, 2000).

The first guideline proposed a three-element model characterised by an emphasis upon narrative rather than numbers, in contrast to the first wave of IC scoreboard reporting frameworks such as the Skandia Navigator (Edvinsson, 1997; Mouritsen *et al*, 2001a). The most fundamental element was a *knowledge narrative*, in which a company seeks to document how it intends to utilise its stock of knowledge resources to create the market offerings sought by customers. The knowledge narrative should also incorporate the company's mission and values, as in a conventional strategy statement, indicating the implicit strategic underpinnings of any ICS. This emphasis, like the narrative attribute, reflected the impact that knowledge management thinking had on key members of the project team. The emergence of the knowledge management field in the mid-1990s (Nonaka and Takeuchi, 1995; Davenport and Prusak, 1997) predates that of IC (management) by a couple of years, and provides a complementary set of insights to those associated with 'intangibles'. Consequently, the guideline project was always envisaged as being more inclusive in emphasis than those that immediately preceded it.

The second element of an ICS was termed *management challenges*. These are derived from the knowledge narrative and identify the key activities that are required, involving the utilisation of four generic knowledge resources: employees; customers; processes; and technology, in the pursuit of successful value creation as identified in the knowledge narrative. It is these activities that are systematically monitored over time, making use of relevant indicators to report performance. The third element was termed *reporting* and refers to how performance is reported within the statement. The project team envisaged incorporating a measure of scoreboarding through the use of a combination of financial and non-financial indicators to communicate outcomes. However, these data would be complemented by the use of a range of more unfamiliar (to accountants) visualisations, selected for their individual relevance and their contribution to providing as complete a picture of performance as possible.

The second phase of the guideline project began in early 2001, now under the auspices of the Danish Ministry for Science, Technology and Innovation (DMSTI). It involved working with approximately 100 companies (plus two consulting organisations who acted as facilitators) to trial the guideline with the intention of developing a more refined version over the next couple of years. The outcome was the development of a second, “new” guideline as outlined in *Intellectual Capital Statements – The New Guideline* (Mouritsen *et al.*, 2003a). The principal advance was the incorporation of a fourth element identified in the form of *initiatives*, positioned between management challenges and reporting. The project team also took the opportunity to refine its overall thinking, as a consequence of which the knowledge narrative now placed more emphasis on articulating how knowledge resources were to be tailored towards successful value creation for and delivery to customers. Management challenges were now represented as identifying the specific knowledge resources required for value creation, especially those that needed to be acquired by the company or strengthened. The new element, initiatives, is concerned with the specifics of meeting recognised management challenges, i.e., more operational actions within the medium to long-term projections underpinning the knowledge narrative and management challenges. Reporting became retitled *indicators*, acknowledging that the entire statement was in effect concerned with reporting, with the final element assuming a more conventional character – the identification of relevant metrics that demonstrated how successful (or otherwise) the company had been in meeting its management challenges through action.

Conscious of the challenges entailed in implementing the ICS approach, the project team was less robust regarding how it might be possible to disseminate the innovation. It was certainly understood that at the extreme it might be possible to combine the statement with more conventional reporting approaches, resulting in an increasingly lengthy document. A reduced ICS might be incorporated within the extant financial statement package and be subject to the attentions of the auditing profession, whose representatives had participated in the project from its inception. Alternatively there was the option of publishing a stand-alone ICS that might include a reduced financial report. There was no appetite in 2002 for introducing a mandatory requirement for IC reporting, resulting in a situation of voluntary disclosure. More significantly, what was reported was at the discretion of companies that elected to disclose, providing whatever information they chose to publish. The 2002 Financial Statements Act did require large private companies to provide information about their knowledge resources (i.e., IC) where these were adjudged to be important in relation to future earnings. In effect this permitted even large companies to opt out of IC disclosure with a degree of impunity. A subsequent act, in 2005, required those companies that were prepared to acknowledge the importance of IC to provide information on their IC resources in the management commentary section of the annual report, perhaps by means of some form of ICS.

The lack of interest in further refining IC reporting after 2002 was in some part consequent on a change of government in Denmark in late 2001. The new government did not wish to commit funds to a third phase of research. Therefore, at the conclusion of the second phase of the guideline project, the new government envisaged that the concept should have reached a self-sustaining level. However, the failure to anchor the concept within one or several management organisations in combination with the existence of a vibrant academic research environment seems to have led only to dispersed and sporadic attention in the Danish business environment subsequent to the release of the new guideline in 2002. In retrospect, the scrutiny afforded the core practices of the accountancy profession consequent on the Enron scandal and the promotion of other new reporting

guidelines such as the Global Reporting Initiative's sustainability reporting framework also deflected interest away from promoting the ICS framework.

### 3. AN INSTITUTIONAL THEORY FRAMEWORK

Institutional theory (IT) was identified as providing an appropriate general theoretical framework for this paper and therefore serves as its framing theory (Baxter and Chua, 2009) or, as Lukka and Vinnari (2014) have designated such frameworks, its method theory. Alongside other postcritical perspectives such as structuration theory, governmentality theory, actor network theory, and more recently practice theory (Roslender, 2013, 2015), IT is now firmly established as an insightful way of seeing within accounting research, first entering its literature in the early 1980s (Boland, 1982; Covalleski and Dirsmith, 1983; Meyer, 1986). In common with these frameworks, IT exemplifies middle range thinking, thereby attracting the designation of middle range theory as characterised by Merton (1957). It is thereby distinct from more comprehensive, all-inclusive meta-theoretical perspectives such as Parsonian structural functionalism, Marxist political economy or Critical Theory. Within accounting research, IT's 'middle' emphases are particularly evident in understanding organisational structures and processes.

Moll *et al.* (2006) identifies a number of distinct traditions of IT, some of which have been utilised within accounting over the past twenty years (see also DiMaggio and Powell, 1991; Modell *et al.*, 2007). The variant designated new institutional sociology (NIS) is explicitly focused on organisations, something clearly evident in the titles of seminal texts by Meyer and Scott (1983), Powell and DiMaggio (1991) and Scott (1995). While Meyer and Scott (1983) argue that whole organisational systems may be tied together in several different ways by the accounting systems they are dependent on (as cited in Meyer, 1986: 354), DiMaggio and Powell (1991) offer the following characterisation of NIS:

This perspective emphasizes the ways in which action is structured and order made possible by shared systems of rules that both constrain the inclination and capacity of actors to optimize as well as privilege some groups whose interests are secured by prevailing rewards and sanctions (Di Maggio and Powell, 1991: 11).

Old institutional sociology (OIS) shares with NIS the attribute of challenging various aspects of structural functionalist analyses of organizations, with Selznick its leading exponent (Selznick, 1949, 1957), together with the young Gouldner (Gouldner, 1954). To date, OIS has not informed much accounting research, although in an influential paper Lounsbury (2008) reminds readers of the work of both Selznick and Gouldner, together with that of Stinchcombe, as a counterweight to the structural orientations of much NIS literature.

A prominent theme within IT-based work is exploring how organisational practices and processes depart from the rationality, optimality and efficiency attributes that are assumed in conventional or mainstream frameworks, hence Donaldson's (1999) "anti-management" designation. Such enquiries are concerned with the promotion of explanation and understanding in respect of organisations rather than seeking to formulate a normative or tool-kit emphasis. IT therefore resonates with developing an "accounting in action" research literature as a complement to the more familiar mainstream (technical) accounting literature, a project identified by Hopwood in his founding editorial in *Accounting Organizations and Society* in 1976 (see also Chua, 1986). Although several IT-



informed contributions first appeared in the accounting literature in the early 1980s, IT's influence was significantly less than that of the various forms of interpretivism then in vogue, or the various critical frameworks embraced shortly afterwards. It was to become more widely subscribed from the mid-1990s, following the publication of Powell and DiMaggio's seminal 1991 volume (Carruthers, 1995).

Central to the introduction of IT into the accounting research literature are Scapens and Burns (Scapens, 1994, 2006; Burns, 1997, 2000; Burns and Scapens, 2000). Unlike many of their counterparts, however, they were not greatly influenced by DiMaggio and Powell, with old institutional economics (OIE) rather than NIS providing them with greater inspiration. Scapens (2006) comments that this interest in OIE was in some part motivated by the recognition that Giddens' structuration theory, which he had employed in earlier contributions with both Roberts and Macintosh (Roberts and Scapens, 1985; Scapens and Roberts, 1993; Macintosh and Scapens, 1990, 1991), does not incorporate historical time. Burns and Scapens were also interested in the process of management accounting change, to which their 2000 paper is a seminal contribution.

Early NIS-based contributions to the accounting literature include Ansari and Euske's 1987 study the use of cost accounting data within US military repair organisations, and Covalleski and Dirmsmith's 1988 account of the budget allocation processes within a US university. Both focus on the ways in which organisations accommodate to external forces intended to shape particular accounting practices, revealing how what are envisaged as 'efficient' practices become translated into workable organisational processes. Although change is by no means excluded, NIS-informed accounting studies are more focused on how internal and external processes become intertwined in shaping the actual accounting processes within organisation. A key concept here is that of decoupling (Weick, 1976), largely self-explanatory, and identifying how organisations present the impression of conformity with external expectations and requirements, while actually pursuing different practices that reflect the persistence of organisational traditions. As part of this process, myth and ceremony play a significant role in reinforcing the formal imagery associated with the organisation, to the mutual benefit of those both inside and outside the organisation. Alongside Weick's (1976) insights on decoupling within organisations, another concept merits consideration: that of "loosely coupled" systems. For Weick such systems are composed of "building blocks that can be grafted onto an organization or severed with relatively little disturbance of either the blocks or the organization" (p.3).

It is the contribution of DiMaggio and Powell (1983) that is arguably the most recognizable guise in which IT has embedded itself within accounting research until relatively recently. Their focus is on how external (institutional) forces impact on internal organisational practices. While the management science or functionalist organisational sociology literatures privilege a generic process of competitive isomorphism, whereby efficient practices are adopted in the pursuit of superior organisational performance, DiMaggio and Powell identify institutional isomorphism as the more common process of external determination or shaping of internal practices. Institutional isomorphism assumes three distinct forms. Coercive isomorphism sees external forces such as government policy or external regulation shaping internal practices, with the implication that neither necessarily embeds maximum efficiency of practice, by definition being shaped by political/power conflicts. Mimetic isomorphism is the process whereby organisations copy or mimic the practices of organisations within their own industry as the most effective way of pursuing superior performance.

The third form, normative isomorphism, identifies professional bodies and consultants as being strongly instrumental in shaping organisational processes, again by implication not necessarily motivated by rational, optimisation or efficiency consideration, rather their own distinct interests in the face of competition from other jurisdictions.

Lounsbury (2008) challenges “the “reader’s digest” understanding of institutional theory as a theory of imitative dopiness” (p.353), identifying alternative approaches that place significant emphasis on the phenomenon of organisational heterogeneity, rather than homogeneity, and rationality rather than rational processes. The core concept identified by Lounsbury is that of an institutional logic, defined by Thornton as:

[T]he socially constructed, historical pattern of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality. (Thornton, 2004: 69).

This, like other definitions of institutional logic(s), signals an important shift within IT, sometimes described as bringing individuals (agency) back into this generic approach to theorising, focusing attention on the role of agency in the social construction of the organisation as opposed to the working through of predominantly external (top-down) structural forces. Lounsbury views this constructionist emphasis as providing a basis for combining institutional theorising with other contemporary developments such as practice theory and actor network theory, both of which are strongly canvassed in contemporary accounting research.

The project to bring back individuals has continued with the emergence of the institutional work perspective (Lawrence *et al.*, 2011). Constructionist emphases are again strongly in evidence, with both Berger and Luckmann and Bourdieu identified by Lawrence *et al.* as providing valuable analytical and conceptual insights. A focus on institutional work is also regarded as holding out even greater promise, however, that of some measure of rapprochement with the critical tradition:

The study of institutional work focuses on situated practices of actors reflexively engaged with the institutions that surround (penetrate) them. Thus, it suggests neither determinism nor heroism and is potentially sensitive to both the oppressiveness of social, cultural, and material structures, and the potential for emancipation from some of those structures some of the time. (Lawrence *et al.*, 2011: 56).

Modell, a long-time advocate of NIS-informed IT as an explanatory framework for accounting and organisational studies, has also observed an increasing focus on both agency and power in leading edge IT contributions (Modell, 2012; Modell *et al.*, 2007; see also Sharma *et al.*, 2010). Modell is more circumspect about the radical or emancipatory potential of such moves, however, although those in search of an inclusive way of seeing may prove less easily dissuaded of what might be on offer: a maturing of NIS via the incorporation of a number of constructionist insights on the one hand and a measure of (very) light touch critical thinking on the other, ensuring that IT continues to form part of the sociology of regulation.

## 4. RESEARCH DESIGN

The seven companies identified as having persevered with the generic ICS approach, and which constitute the sample for this paper, came to the research team's attention during the course of a survey of the 102 companies (including two facilitating companies) involved in either the first or the second phase of the guideline project (Nielsen *et al.*, 2015). These companies had continued working with the ICS for a considerable period after the guideline project had concluded. In total eight interviews as summarized in table 1 were conducted<sup>2</sup>

Interviewee	Position/Department	Years covered by the respondent	Company	Activity/Sector	Size	Ownership
1	Communication Department	2000 – 2010	A	Consulting engineers	Large	Private
2	Head of Finance	1998 –today	B	Utility company	Large	Private/ Publicly owned since 2005
3	Chief of Administration	2010 – today (direct successor of original resp. person)	C	Administration services of utility company	Medium	Publicly owned
4	Director	2001 – 2012	D	Municipality, tax services	Large	Publicly owned
5	Corporate Communication Department	1999 – 2004	E	Public sector IT provider	Large	Publicly owned/ Private since 2008
6	Senior Accounting Manager (communication department)	2000 – today				
7	Communications- and development Consultant	2007 - today (successor of original resp. person)	F	Utility company	Large	Publicly owned
8	Sustainability/People & Culture department	1999 - today (but not involved directly)	G	Wind turbine manufacturer	Large	Private

Table 1: Descriptive data for companies and interviewees

When compared with the overall sample of 102 companies involved in the guideline project, the seven companies in this sub set are relatively large in size when measured in financial terms, although some of the companies employ relatively small workforces<sup>3</sup>. This may affect the

<sup>2</sup> In case company E the original manager of the IC reporting project was still employed elsewhere in the company and so it was decided to interview him along with the current manager so as to cover the whole period of IC reporting, despite the potential drawback of attaining skewed feedback in relation to that specific case.

<sup>3</sup> e.g. Company F is considered one of the 1000 largest companies in Denmark, even though it has only about 100 employees

representativeness of the sample because, in terms of regulation, large companies are subject to particular disclosure requirements on the one side, while public organisations are more directly influenced by governmental decisions and initiatives, such as the guideline project. Table 1 also provides information on the position of the respondent in the company as well as depicting his/her period of employment in the company. This is important for the subsequent understanding of the respondents' abilities to express viewpoints concerning the initiation and continuity of the IC reporting practices.

The eight semi-structured interviews were organised around three key research themes. The first of these focused on the motivations for initiating IC reporting under the auspices of the Danish Guideline Project, and whether or not companies experienced particular types of pressures, influences or other mechanisms designed to encourage their participation within the project and/or the measurement of IC in general. The second theme concerned the reasons why the case companies continued their IC reporting practices. The third theme related to how the different companies had gone about implementing the ICS guideline, and in particular evidence of any subsequent development of this. Interviews lasted between 60 and 90 minutes. They were designed to be relatively open-ended, providing an opportunity for respondents to offer further comments, elaboration and self-evaluation as well as to provide the possibility for additional themes to emerge. All respondents gave permission for the interviews to be recorded and the researchers subsequently transcribed all of the interviews.

## 5. EMPIRICAL FINDINGS

### Institutional pressures towards ICS reporting

As indicated in section three above, the initial focus is evidence of any external pressure or influence that impelled companies towards participating in the guideline project and implementing the ICS approach. DiMaggio and Powell's three mechanisms of isomorphic change offer a useful framework for exploring any such determinants of internal practices. The findings are listed singularly in relation to each mechanism of isomorphic change and detailed considerations are reported in the following three subsections.

#### *i) Coercive isomorphism – the experience of external pressures*

Were there or did companies perceive any direct or indirect formal pressures to undertake IC reporting? DiMaggio and Powell assert that a high intensity of interaction with agencies of the state, such as those attendant on the existence of the guideline project, is likely to create pressures towards isomorphism (DiMaggio and Powell, 1983:155). In addition to direct formal influences from institutions such as governmental organisations and legislation, significant indirect pressure may be experienced from **any** other key stakeholders companies are involved with, e.g. employees or public institutions.

Only one respondent, the Head of Finance in Company B, identified the existence of formal external pressure, observing that there were

*[S]ome pressures from the outside about taking non-financial aspects into your financial report, about*

*environmental aspects and about the people part,*

adding that, today, as a government-owned company:

*The pressure is coming from the Ministry who administrates and owns the company. They want some specific topics for the coming year, the coming reporting.*

It is important to recognise, however, that this respondent was not directly, nor solely referring to influences experienced in relation to the guideline project, rather to the broader situation as it applies in relation to his company. Respondent 5, a former employee of Company E noted that:

*Well, naturally there were various external pressures on the company, from various sides like I mentioned earlier [...] I don't know about calling it pressure though, but I am sure that there was a motivation in terms of trying to renew the company's image.*

These comments, together with what other respondents stated, suggest that little or no evidence of clear and direct formal external pressure was experienced by these seven companies. The decision to take part in the guideline project seems to be driven by many different factors, including a particular interest on the part of individuals within a company. For instance, respondent 7 from Company F explains this situation as follows:

*In the beginning it was like one person who was very passionate about it. In 2000-2001 he went for a meeting at the Ministry and somebody started talking about this kind of work and he said: yes let us, let the (Company F) be a part of developing the guidelines.*

This respondent also confirmed that the decision to participate was entirely internally driven, without any governmental or institutional pressures. Respondent 4 from Company D believed that it was his interest in IC reporting that resulted in his company's involvement in the guideline project and that there was no formal external pressure on him when using these types of reporting practices. Within Company C a similar situation existed according to the respondent from that company who had succeeded the original advocate of ICS reporting.

More indirect types of formal pressures were also investigated, including the Danish Financial Statement Act 2002 that requires companies to make certain (limited) disclosures regarding their knowledge resources. Although for all seven companies knowledge resources seem to have a consistent importance in relation to future earnings (see Mouritsen *et al.*, 2003a: 47), it emerged that none of the respondents has perceived this requirement as overly prescriptive, nor as an incentive to adopt any particular kind of reporting practice. Respondent 8 from Company G highlighted the very limited nature of the reporting requirement within the legislation, which in turn provided significant scope for interpretation:

*You can have half a page, or you can have 200 pages describing all sorts of things, it's a very loose requirement.*

The respondent from Company B suggested a limited measure of informal expectation, however; being a state-owned company, it is supposed to report according to the requirements for stock

listed companies, and thereby also to report about their knowledge resources. Nevertheless, Company G, which is a stock listed company, defines these as “loss requirements” which is somewhat contrasting to Company B’s statement.

Informal pressures from stakeholders including potential employees, partner companies, investors or analysts, seemed largely absent. Two companies did acknowledge that they were interested in demonstrating to potential employees what their company offered as an attractive workplace, although not as a consequence of any pressures to do so. In the case of investors and analysts, the views of the sample contrast with the findings of Beattie and Smith (2012) who identify capital market information among the main drivers of voluntary IC disclosure among large UK companies. They also noted, however, that the reduction of the cost of capital due to IC disclosures, for instance, was not among the most frequent reasons motivating these disclosure decisions. In this context respondent 6 from Company E commented:

*We are not on the stock market, investors do not follow us and analysts from the investment banking community, so we are not like listed companies. We conducted, I can’t recall the year exactly, but we conducted an analysis about the target group reading our report and it was mainly job seekers and students.*

Interesting insights also came from Company G, where the nature of their extra-financial reporting was recognised to be largely driven by the interest of key stakeholders. This said, the respondent also believed that IC was not high on their stakeholders’ agenda, as a result of which they did not exert much pressure on the company to report on its IC or knowledge resources.

Overall, respondents provided no clear and coherent evidence of the operation of the mechanisms of coercive isomorphism in relation to IC reporting practices. This indicates that the role of external actors or agents, such as governmental institutions, in influencing the companies’ orientation towards the pursuit of IC reporting was limited. Furthermore, the study provides no clear evidence of variations being related to whether companies were privately or publicly owned, nor in relation to their sector and size. The only exception might be observed in Company B, which partly confirms the assertion that publicly owned companies attract relatively more attention from government institutions.

#### *ii) Mimetic isomorphism - combating uncertainty due to the emergence of IC*

DiMaggio and Powell argue that companies engage in mimetic behavior as a response to their poor understanding of new practices, and that this results in the establishment of enabling mechanisms of change within companies (DiMaggio and Powell, 1983: 154). The growing importance of IC and intangible resources evident from the mid-1990s produced widespread uncertainty at both the national and global levels (Lev, 2001; Johanson and Henningsson, 2007). At the level of the individual company there was a perceived lack of competence for dealing with these developments in terms of their measurement and management, as well as an inability of traditional financial statements to report the growing contribution of IC to enterprise value. Companies regarded as successfully engaging in the management, measurement and reporting of their stocks of IC offer examples that might be copied in an effort to reduce uncertainty. Therefore, it might be expected that many companies chose to follow the ICS reporting pathway that appeared to have benefited other

companies, including those that had participated in the first stage of the guideline project. Such imitative behaviours hold out some guarantee of reduced uncertainty, thereby commending themselves to management.

Various contrasting observations were offered regarding the occurrence of mimetic behavior as a response to uncertainty. Respondent 3 from Company C viewed ICS reporting practices as a contemporary fashion, something companies perceive they need to do (cf. Fincham and Roslender, 2003; Abrahamson, 1996). Having confirmed the lack of competence in managing, measuring and reporting on IC respondent 1, a former employee of Company A, described the situation at the time the company joined the guideline project as follows:

*Yes, they have learnt about it, they had no capabilities when they started... but I think they also [Company A] think they made contributions to the guideline, it was very active, so it was both knowledge for them but it was also, they wanted to share.*

Respondent 5 from Company E also talked directly about uncertainty:

*So at that time there might have been an environment of uncertainty and also, a part that I haven't already mentioned yet, uncertainty also because when we decided to go public with all our non-financial indicators, we were also aware that we would be showing something that was not very popular. So the uncertainty was also within the company, the participants and within the surrounding world as to, how can you work with something that might have been a business secret?*

This latter statement introduces the interesting dimension of corporate concerns about disclosing information that could negatively affect future competitiveness, both because of disclosing something negative about the company as well as perhaps giving away business secrets. Conversely, respondent 6, a senior accounting manager at Company E, asserted that the role of uncertainty was unimportant in the decision to participate in the guideline project. The former director from Company D said that he was actually not looking for a unified reporting framework for intangibles when he decided to join the project. Therefore it cannot be concluded that these companies were motivated by uncertainty or by the willingness to obtain a better understanding of how to measure, manage and report IC.

The same companies, A and E, also provided interesting insights in relation to the environment in which they were operating. Company A used the ICS framework to demonstrate their strengths to competitors as well, while respondent 6 explained that, since many other successful large companies were working with it, embracing these types of reporting was important for any progressive company at that time, as opposed to seeking to combat uncertainty. This particular statement also resonates with the issue of management fashion previously mentioned by other respondents.

Probing further on the issue of uncertainty due to the of stocks of intangible resources, respondents were asked how much their IC reporting was driven by the failure of the traditional financial statement to represent the whole value of companies (see Edvinsson, 1997; Mouritsen *et al*, 2001a). Respondent 7 from Company F commented that:

*Yes, actually that was the whole reason, they always said when they were going to explain it actually: this is what we were not showing in the financials.*

Similar views were also expressed by the respondents from Companies A and B, with respondent 1 commenting that:

*Because I think that economic data does not tell the whole story about a knowledge company, I think it's.. you have to have this data to tell the other part of the story, and I still mean that.*

Conversely, respondent 6 from Company E believed that such considerations played only a minor role compared to more important reasons such as increasing the transparency the company's activities. This more strategically oriented purpose can be interpreted in terms of gaining legitimization through the use of IC reporting. In summary, neither uncertainty nor mimetic isomorphism seemed to have motivated these companies in embracing the ICS, although there is evidence that some of the companies took such actions for strategic reasons, including enhancing their competitiveness.

### *iii) Normative isomorphism - the role of professionals*

In order to investigate the possible influence of normative mechanisms of isomorphism, respondents were asked whether particular forms of professionalism influenced the adoption and development of their companies' IC reporting activities, and/or whether it involved particular professional groups. These influences were investigated from a company perspective (i.e., internal actors) as well as from an external perspective (i.e., external actors), referring to the people involved in the organisation of the project (e.g. consultants, facilitators, researchers). Sharma *et al.* (2010) explicitly mention the role of consultants' services in relation to normative pressures, defining them as change agents. Their services are not only evaluated in relation to technical consultancy, but also for the legitimacy that they provide to companies (Irvine, 2007). DiMaggio and Powell note an increased probability that professionals are likely to "have internalized [the] reigning norms and dominant organizational models" associated with specific professions and their traditional practices (DiMaggio and Powell, 1983: 155), in turn increasing the similarity of practices across organisations as managers enact such practices in accordance with expectations of their own professional associations. The more powerful a particular professional jurisdiction is within an individual company, the greater the likelihood of embedding practices evident in other companies dominated by that jurisdiction (DiMaggio and Powell, 1983: 156).

Although the Danish accounting profession played an important role in driving the guideline project, and shaping the generic ICS approach, there was no guarantee that accounting and finance practitioners were motivated to see it implemented within individual companies, or were actually in the position to do so. In the case of three companies, A, C and F there was evidence to the contrary. Respondent 8 from company F commented that:

*My predecessor was an accountant but I don't think this influenced him.....He looked at the formal guidelines. I think that influenced him more. I don't think being an accountant by background was important.*

On the other hand, the thinking on knowledge management current at the time may have been more important, as in the case of company A:



*The IC reports we did at the time relate to knowledge thinking. We had a small department called 'knowledge management' with 5-7 at the start, now 2 or 3.....They thought that knowledge was thing that you could organize, package and export to another country. It could then be unpacked and utilized by others.*

By contrast, respondent 2 from Company B reported that a considerable extent of normative isomorphism was evident, with almost all of the people that were involved in the preparation of the financial statements, within which their ICS was integrated, being economists or auditors who sought only documentable data on IC:

*I think that when it was part of our financial reporting.....the guys who are writing and who are auditing the report, they are all economists or auditors, and that means they demand some specific figures and numbers to include in the financial report. On the value-based issues, it was difficult to get these information for the guys who were in the financial department and were used to particular types of information.*

In the case of Company E, respondent 5 explained that as a result of working closely with an external consultant in developing and implementing an ICS framework, the company was strongly influenced by the Business Excellence model<sup>4</sup>, which originated in a different, if related, professional tradition. Nevertheless, this meant that accounting played a more important role in her company in influencing the form of ICS activity, as opposed to human resource management.

Across the seven companies the ICS project was anchored in different departments, involving people who had widely different professional backgrounds. Furthermore, respondents' statements differ quite a lot, leading us to conclude that consultants had relatively little influence on ICS implementation. As a result, the existence of clear mechanisms of normative isomorphism is not evident within this sample, the subsequent evolution of the actual reporting practices being shaped by a range of professional jurisdictions, which were largely contingent on prevailing (and changing) employee profiles.

Taken together, the experiences of the guideline project and subsequent uptake of the generic ICS approach evident within this sample of companies that were broadly supportive of such developments are not consistent with DiMaggio and Powell's explanation of the mechanisms of isomorphic change within companies. To the extent that it is possible to identify common features of the different experiences, the existence of strong and enthusiastic individual advocacy for such initiatives would appear to be crucial. At the same time, and perhaps inevitably, there is an element of the operation of a management fashion, the appeal of which is usually likely to subside over time for all but the most ardent advocates. Equally, a development such as the ICS is best understood to be rather loosely coupled with traditional professional jurisdictions, as a consequence of which its successful establishment within any particular company is likely to entail a difficult process in which vested interests may play a considerable role.

### Continuities in and the evolution of ICS reporting practices

Motivations for continuing ICS reporting beyond the guideline project were explored, together with its evolution over time. Given the limited evidence of the usefulness of DiMaggio and Powell's three

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<sup>4</sup> The Business Excellence Model is also known as the EFQM model. See [www.efqm.org](http://www.efqm.org)

mechanisms of institutional isomorphism documented in the previous sections, the question of why these companies continued working with the ICS in the years following the project seems even more relevant.

These seven companies were the only companies in a sample of 102 that continued their IC reporting practices well beyond the conclusion of the guideline project (Nielsen *et al.*, 2015); such reporting remains voluntary in nature. Consistent with these observations was the general finding that these companies, or influential individuals within them, were clearly attracted to the idea of extending financial reporting to take account of new features of the economic and commercial environment, *inter alia* the emergence of IC. The guideline project was therefore something they welcomed and enthusiastically participated in, so their continued interest is no surprise. While it may have initially emerged as a management fashion, thereby initially attracting interest from a much larger constituency, in these seven companies it was a fashion that persisted over the following decade.

This said, during the decade following the conclusion of the project, the seven companies developed the ICS approach in their own ways, reflecting their perceived requirements. This latter point is well expressed in the words of respondent 6 from Company E, concerning the reasons for making several adjustments to the original ICS framework:

*Yes, it was actually the same thing but different, we just wanted our own structures, because it was more meaningful to us in that way.*

As a consequence, a considerable extent of heterogeneity of practices was evident, even within this small sample of companies. Only Company F continued to produce a generic ICS for a prolonged period, named as such and published as an independent document, following the official guidelines with only minor changes from year to year. As respondent 7, who succeeded the person originally responsible for implementing the ICS, commented, “it made sense for top management”. This changed after 2009, however, when the ICS was merged with the environmental report, in a now mandatory CSR report. This respondent also provided some insights regarding the changes she had introduced:

*Yes, and he [her predecessor] retired at the same time, so there was the opportunity to change the whole thing. It was not that I didn't like the concept, it was just that... it's difficult to use it strategically if nobody else knows what it is.*

Company A continued to include an ICS in its annual report until 2010, focusing mainly on employees but not reporting about technology. In this case, its retention was discussed every year, the practice being supported by the company's CFO and driven mainly by pride and because it “does not cost much and looks good in the annual report”. Respondent 1 observed that this was at odds with the suggestion that their investors did not seem to care about IC information, only about the bottom line. On the other hand, Company B followed aspects of the guideline when reporting on IC, integrating them into the annual report under a section designated “Knowledge and Organization” which again focuses principally on human capital (HC). Commenting on this, respondent 2 suggested that this was probably because the employee-related data was the easiest to collect, while also noting other recent reporting requirements:

*I think we do it because we have to do it, it's not a big issue. It's because we have to do our report as stock listed company, in a similar way to our CSR.*

Company E had developed a unique approach to ICS, at least in the early years. They invested the ICS with a significant importance by linking management compensation to IC-related results, as well as, by seeking to audit the ICS, to provide higher reliability. Nevertheless, after 2005 the company began to develop a "Strategic Annual Reporting" approach, which included elements of the original ICS framework, but modifying its structure into a "Market Structure" and a "Business Unit Structure". In 2005 company C had transformed its ICS into a "Strategy Plan" in which elements, mainly about employees' knowledge and education, were assessed and presented together with funds and resources spent on education and education. The person who originally introduced the ICS to the company, and who was also responsible for its subsequent transformation had successfully convinced many of his managerial colleagues of the value of these activities. His successor now believed that these developments were becoming regarded as being "outdated", with fewer people looking for the information that was being provided.

In the case of Company D respondent 4, a former director, commented that he followed the official guidelines for a couple of years, then decided to develop his own framework, based exclusively on employee-related reporting and monitoring practices. He added that the reasons for continuing his work with IC reporting, acknowledged to be mainly for internal purposes, reflected the value that he could perceive in it:

*Yes, I addressed it to my own leaders in my own part of the organization at internal seminars to explain why do I want to use it, where we are, where are we going to be in a few years' time and how are we going to get there. And I have used it sometimes to persuade my own leaders to seeing the usefulness of the tool.*

Finally, in 2006, in collaboration with an external consulting group, company G introduced a mapping process of their key intellectual resources, principally people and technology, incorporating the resulting report in their annual financial reporting package.

These findings indicate that, while it cannot be claimed that the guideline project proved a great success, some companies developed it in a variety of novel ways. A common denominator in these different forms of ICS-driven reports is their overarching focus on human resources. Further, after becoming integrated within the traditional annual report at first, and within other emergent extra-financial reports later, they seemed to slowly disappear over the years. The ICS may thereby be recognised to offer insight to the contemporary economic and commercial environment, not least those associated with employees and their role within the knowledge society. The assertion that "our employees are our most valuable assets" is, quite correctly, regarded with considerable cynicism these days. Nevertheless, people (employees) do matter (Roslender, 2009). Maximising human capital's contribution to company performance is a crucial strategic challenge, the success (or otherwise) of which merits reporting in their financial statements, alongside a growing list of non-financial considerations such as sustainability; ethics; governance; corporate social responsibility; etc. In the continuing absence of mandatory reporting requirements, it falls to individuals to assume the role of advocates for such developments, including the ICS, as well as to promote the beneficial changes their installation within companies promise.

## 6. DISCUSSION AND CONCLUDING REMARKS

The empirical findings do not reveal any clear patterns in respect of the characteristics of the companies (i.e., sector, size and ownership structure). The limited number of observations is also at odds with anticipating any such valid generalisations across the respondent companies in this study. Nevertheless, a closer look at the data reveals at least some insights that might be highlighted. Firstly, there were contradictory indications concerning the effects of pressures to report IC information, even between similar companies in our sample. Secondly, overall the study indicates that neither external stakeholders nor the various capital market agents paid much attention towards the IC information being disclosed in the ICS. This seems to be at odds with the common perceptions present in the extra-financial and IC literature that reporting information on IC resources somehow reduces information asymmetries (Singh and van der Zahn, 2007).

Furthermore, while some respondents defined the ICS as a management fashion phenomenon, with the objective of being viewed as having a better image than their nearest competitors, and in cases even to intimidate competitors, other respondents intimated that they were in some part engaged in imitative behaviours. It seems to be the case that while the private companies in our sample used the ICS more actively to promote an IC image, the publicly owned companies in our sample were more inclined merely to “follow” the ministry-driven reporting fashion. Common for both the privately owned companies and the two state-owned utility companies in our sample was the argument that their voyage into disclosing IC information using an ICS had to do with the ability, or lack hereof, of the traditional financial statement to represent the company’s real value.

Regarding the influence of professional groups such as accountants and consultants, a rather heterogeneous picture emerges. In some instances pressure from professional partners seems to have been the sole reason for producing an ICS, whereas in other instances, no external parties were involved in the project at all. The lack of continuing interest from professional groups towards the ICS might very well be considered having a rather negative influence on its demise.

The evolution of the ICS within the companies at first provides a rather heterogeneous picture. However, a common characteristic is that almost all of the responding companies stopped following the original guideline after some years. They began focusing their reports on human resources and integrating this information in their annual reports. Only company F continued to publish a separate ICS with only a few minor alterations from the original guideline for a considerable period of time. Finally, also companies’ decisions to disclose IC information do not indicate any patterns in relation to their contingencies. Indeed both private and public companies made similar choices here.

The widespread absence of evidence of the operation of DiMaggio and Powell’s mechanisms of isomorphic change among this small sub sample of companies combined with a tendency towards heterogeneity of subsequent practice may be the consequence of the decision not to make the use of the ICS mandatory after 2002. It remains an open question as to whether such a regulatory regime would have been able to deliver institutional legitimation and the widespread adoption of the ICS approach. The compulsory introduction of the ICS would in turn probably have led to other research questions such as for instance compliance versus “real” implementation, or whether the benefits of such a reporting vehicle, in terms of value relevance, would have been worth the costs. Indeed as this analysis partly shows, and is further reinforced by Schaper’s (2015) findings, many

types of external stakeholders, and the capital market in particular, do not seem as keen on receiving IC information as is intimated in the academic IC-literature. Hence, at this point it might be possible to argue, that there was not a strong enough basis for the mandatory implementation of the ICS after all.

This being said, it should be borne in mind that some of these requirements were made, at least in a weaker form, in the Danish Financial Statements Act of 2002 and 2005 (see Mouritsen *et al.*, 2003a; Roslender 2009: 348). Unfortunately these requirements also failed to produce the expected or desired regulatory effects, however minimal they might have been, as observed by respondent 8 in expressing these as “(...) very loose requirements” (see in section 5.i.). In contrast to Tolbert and Zucker (1983) arguments concerning the impetus that external pressures and policies often have on the institutionalisation process, it is not surprising that the majority of the companies in the broader sample have adopted ICS rather superficially and usually for only a rather limited period.

The evidence provided by the research suggests the somewhat heterogeneous evolution of ICS practices among the sample during the decade 2003-13. Each of the seven companies eventually evolved something distinctly different from the original ICS guideline model, hence it might be argued that rather than institutionalisation, what is evident in relation to the adoption and implementation of ICS is more akin to the operation of a decoupling process (Weick, 1976). The most emblematic case is probably represented by Company F, which for almost ten years published a separate ICS report, despite this practice not being a result of deeply rooted knowledge management activities, but rather a result of inertia. Another emergent attribute is that most of these companies have, to a certain extent limited the concept of IC to that of human capital (cf. Fincham and Roslender, 2003). Whether misunderstood or perhaps deliberate, this human capital confinement was often motivated by ease of information gathering or due to already existing HR procedures and practices. Such behavior might be related to internal actors' existing “reservoir of belief” (Weick, 1979: 187), meaning that managers prefer using familiar data, or data which is already at their disposal, instead of engaging in the *ad hoc* creation of new IC or HC indicators (see also Sharma *et al.*, 2010).

Further, it is worth highlighting that the trend of re-incorporating the ICS, or more often just parts of it, back into the annual report provides evidence to the evolution of standalone ICS towards IC reporting integrated with either traditional financial reporting as well as other types of non-financial reporting (e.g. environmental and social, CSR reporting). The latter phenomenon can be well described by, and readily associated with, the currently fashionable Integrated Reporting topic (see de Villiers *et al.*, (2014) for an extensive and updated overview of this topic). By contrast, Company E's concern about using ICS disclosures to “renew the company's image” is similar to what Beattie and Smith (2012) define as arguments that support legitimacy theory. Within their study, some companies were interested in “promoting a reputation for transparent/accurate reporting” (p489), similar to the case of Company E, which wanted to provide a more transparent and modern image of itself.

In many of the interviews there was considerable reference to individual managers taking a central role in the implementation of the ICS framework within companies, often in the context of the particular department where ICS practice was most firmly embedded. Such influences on how this practice has been successfully pursued soon became apparent during the interviews. Interesting

parallels can therefore be drawn with Sharma *et al.*'s (2010) findings concerning the installation of TQM in a Fijian telecommunications company. The respondents in the present study reflect quite well the figure of "agents", which Sharma *et al.* (2010) mention in relation to the earlier work of Seo and Creed (2002). In so doing the findings of the present study also resonate with the project of bringing individuals back into the generic IT theoretical framework, affirming the value of understanding organisational processes from a bottom up constructionist perspective in which the emphasis shifts more in the direction of agents rather than structural determinants, as in the DiMaggio and Powell isomorphism framework. The individual managers identified by our respondents can be designated as internal catalysts of the implementation of ICS practices, (inter)acting in the process of external (institutional) change, and thereby of crucial importance to the processes of adoption, implementation and customisation of the ICS practices. Their presence is no guarantee of success, although their absence would seem to make failure more likely or perhaps inevitable.

Building on the latter considerations, and as observed earlier in the paper, Lounsbury (2008) offers an alternative perspective on IT, one more suitable in linking it to the evidence found in this study: heterogeneity opposed to homogeneity of organisational practices, and rational choices instead of irrational behaviour. Indeed, the findings reported in the previous section indicate that companies appeared to have been under no particular institutional pressures, nor any uniform IC reporting practice as having been established over the years. Hence, instead of searching for institutional forces influencing companies from the outside, it might prove more instructive to look back into these companies and especially to focus on those mechanisms that are at the base of change agents' behaviour. The latter might be accomplished by focusing on aspects such as the role of agency rather than the external forces imposed by IT, and to do so combining IT with other theoretical approaches, again as suggested by Lounsbury (2008).

The critical role that individual managers appear to have played in those few companies that chose to work to develop the basic ICS template that was on offer to them at the conclusion of the guideline project might also be viewed as evidencing a measure of resistance to external pressures for homogeneous practices. Greenwood and Hinings (1996), commenting on the new institutionalism exemplified in DiMaggio and Powell (1983) and Fligstein (1985), state that "a template rational for an individual organization may not be rational for a large number of organizations" (p.1027). The original concept embedded within the ICS, and the way in which it was believed to offer a positive contribution to companies struggling to report on their stocks of IC, does not necessarily need to be shared by all companies. As the present study demonstrates, this observation also applies to many companies that were initially attracted to the guideline project. The findings reported in the previous section underline that the interaction between the internal actors, such as the individuals responsible for implementing ICS practices within their own companies, and external institutionalized context, needs to be properly understood. Such actors bring with them a range of agendas that contribute to shaping the manner in which generic practices are adopted and how they evolve over time. As Lounsbury (2008) argues:

*A focus on actors is crucial to understanding how these struggles play out and result in the creation of new logics or practices. (p355).*

In this way, the order of heterogeneity evident within the sample of seven companies occurs as a consequence of the creative resistance that individual actors are always capable of bringing to any situation.

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